



EUROPEAN
MICROFINANCE WEEK 2013

THE FUTURE OF MICROFINANCE:
INVESTING IN INCLUSIVE GROWTH

Dealing with Unsustainable Microfinance Markets

e-MFP

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Unsustainability

- Not about the ability to make surpluses or pricing adequately to cover costs
- It is about the continuity of business over a period dealing with external pressures
- It is about meeting threats to shut down business – emanating from customer resistance, political hostility or regulatory action

Early signs of overheating

- Fast growth rates in outreach – especially credit
- Rapid ramp up of operations – physical network, staffing
- Single product dominance
- Bundling of other products and services with credit
- Entry of too many start-ups – idea seems too good to miss out

Warning signals

- Heightened Commercial interest – deluge of equity investors
- Willingness of banks to take large exposures in MFI loans
- High enterprise valuations – tendency for IPOs
- Low key problems in repayments, localised customer movements
- Staff Incentives driving business – greater proportion of remuneration through incentives

Arrival of crisis

- Calls for more regulation
- High managerial remuneration
- Intolerance of criticism; feedback by the sector
- Aggressive defence of high interest rates
- Intense competition in the market
- Governance deficit
- Political attention on the sector
- Media attention on the sector

Contributory factors

- Competition induced facile access to multiple credit
- Lack of transparency
- Customer fatigue with meetings and EWI/EMIs
- Slow and tardy regulatory initiatives
- Lack of understanding of MF – that is it is more behavioural and less financial
- Unbridled greed

Dealing with unsustainability

- Identify the indicators that point towards unsustainability
- Examine whether the problems are remediable
- Segregate internal and external problems
- Open up channels of communication
- Put out more information in public domain

Dealing with unsustainability

- Invest in good governance – bring on board more independent directors in MFIs –
- Take up self-disciplining measures – code of conduct, fair practice code
- Set up grievance handling systems
- Engage in dialogue with political class and policy makers

Some critical aspects

- Set up reasonable ROA and ROE expectations
- Curb tendency to price credit to the limits of what the market can bear
- Maintain close relationship with customers and frequent contact
- Set up mechanisms to deal with customers in distress
- Review staff incentives and avoid the perverse ones
- Invest in staff training on appropriate field conduct
- Do not avoid media – use them well
- Welcome regulation – exceed regulator's expectations



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THANKS